

## **Review of the Reduction of Tier I to Zero by Social Security Benefits**

### **Report No. 99-13, August 16, 1999**

#### **Background**

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers the health and welfare provisions of the Railroad Retirement Act (RRA) that provide retirement-survivor benefits for eligible railroad employees, their spouses, widows and other survivors. At the end of fiscal year (FY) 1998, there were approximately 718,000 annuitants receiving benefits.

Regular railroad retirement annuities are calculated using a two tier formula. The amount of tier I benefits is based on railroad and non-railroad earnings. Tier II benefits are computed using railroad compensation only. Annuitants who meet certain additional tests of earnings and years of service may be eligible for other benefits under the RRA.

Railroad retirement annuitants may also be entitled to SS benefits. The RRA of 1974 provided that the tier I portion of the RRA annuity be reduced by the amount of any Social Security benefit payable. When the SS benefit is greater than, or equal to, the tier I amount, the net tier I portion of the annuity will equal zero. There are approximately 50,000 railroad retirement annuitants in current pay status whose tier I portion is zero as a result of the reduction for SS benefits.

This project was included in the Office of Inspector General's FY 1999 audit work plan as a result of payment errors identified during the audit of the agency's FY 1997 financial statements. That audit identified two cases in which the tier I portion of the RRA benefit had been correctly reduced to zero for an initial period of time. However, the annuity was not promptly adjusted for subsequent increases to the RRA benefit that would have increased the tier I portion to an amount greater than zero.

The RRB's strategic plan states that "we will optimize accuracy in providing benefits" as the agency's first strategic objective in meeting its overall goal of providing excellent customer service. This audit speaks directly to this key area of agency performance.

#### **Objective, Scope and Methodology**

The objective of this audit was to determine whether tier I benefits that had been reduced to zero as a result of the reduction for SS benefits were being properly adjusted for subsequent changes in the SS and RRA benefit rates.

In order to achieve this objective, we:

--reviewed, in detail, the two error cases that provided the indication for this audit;

--reviewed a random sample of 100 annuitants with a net tier I that was zero as a result of a reduction for SS benefits;

--reviewed a judgmentally selected sample of 22 benefit payments in which the gross tier I was within \$25 of the SS benefit amount; this sample was selected to supplement the seven such cases identified for review as part of the random sample. These 22 cases were drawn from the same population as the 100 case random sample. A total of 29 cases with differences of \$25 or less between the SS and RRA tier I were reviewed.

The population reviewed included beneficiaries on the RRB's Master Benefit File (MBF) as of October 20, 1998 whose tier I benefit had been reduced to zero as a result of a reduction for SS entitlement. We obtained pertinent payment data for each case from the MBF, RRB claim folders and the Social Security Administration's Master Benefit Record.

Our review was limited to adjustments made to the tier I portion of the RRA annuities as a result of the reduction for SS benefits during the last five full calendar years (1994-1998). We did not verify the accuracy of the RRA benefit computation.

Audit work was performed in accordance with generally accepted government auditing standards as applicable to the objectives. Fieldwork was conducted at RRB headquarters during March 1999 through June 1999.

## **Findings and Recommendations**

In general, RRA annuities in which the tier I portion has been reduced to zero by offset for SS benefits are properly adjusted for subsequent revisions to the tier I portion of the RRA annuity rate and changes in the SS benefit amount.

The Office of Programs routinely adjusts RRA benefit payments to reflect fluctuations in the tier I component. Changes in the SS benefit amount are recognized and properly included in the final payment calculation. Payment errors of the type previously identified during the FY 1997 audit of the RRB's financial statements appear to be unrelated to the net amount of the tier I benefit.

### **Incorrect Reduction to Zero Very Infrequent**

The occurrence rate of errors related to the reduction of the tier I portion of RRA benefits to zero by SS benefit offset is very low.

We tested a sample of 100 payments randomly selected from all annuities in which the tier I portion had been reduced to zero by the offset of SS benefits. We also tested a judgmentally selected sample in which the SS benefit and RRA benefit were very close in amount. In each case, we reviewed the accuracy of the reduction resulting from entitlement to SS benefits during the last five years. We identified no errors.

During the review, we identified two cases in which the net tier I amount was equal to zero during some periods and greater than zero during others. The net tier I amounts changed from zero to amounts greater than zero, as appropriate, based on changes in the RRA tier I and SS benefit amounts.

This review was conducted on a sample basis. As a result, we cannot state with certainty that errors never occur. However, based on the results of our testing, prior audit findings and detailed review of the cases that provided the indication for this project, we have concluded that:

--errors related to the reduction of tier I to zero for SS benefits occur very infrequently; and

--when errors do occur, they are unrelated to the value of the tier I portion of the annuity.

The results of this audit are consistent with a prior assessment (Report 97-17, Review of the Accuracy and Timeliness of Social Security Benefits Paid by the Railroad Retirement Board) of the overall accuracy of SS offset when the SS benefit is paid by the RRB. (SSA certifies the SS benefits of RRA beneficiaries to the RRB for payment. Beneficiaries receive a single check remitting both RRA and SS benefits. This procedure facilitates the process of reducing the tier 1 portion of RRA annuities for SS benefits.) That review, limited to the current payment in force, included a sample of 281 cases in which no offset errors were discovered.

We did not identify any errors that would indicate a condition requiring corrective action. Accordingly, we make no recommendation for improved processing.

### **Management's Response**

The Office of Programs concurs with the audit findings.